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SUBJECT: TACA AND AVIANCA AGREE TO MERGE

¶1. (SBU) SUMMARY: On October 7, El Salvador's Grupo TACA announced a merger with Colombia's Avianca Airlines to form Latin America's second-largest carrier. TACA's primary short-term benefit is new long-haul routes to Europe and North America. The local American Airlines representative does not see TACA/Avianca as a threat to US carriers. In the short run, TACA's service is unlikely to change significantly. END SUMMARY.

¶2. (SBU) On October 9, Econoff met with Grupo TACA CEO Roberto Kriete to discuss the announced merger with Avianca Airlines. Kriete said the arrangement was not a merger in the true sense of the word, since the two airlines will continue to operate as separate companies. The agreement will create a new company, Holdco, in which the Brazilian based Synergy Aerospace Corporation, the primary shareholder of Avianca, will have 67 percent of the holdings and TACA the remaining 33 percent. Kriete emphasized that while Synergy will control two-thirds of the holdings, decision-making power will be evenly distributed and the airlines will retain their reporting lines. Kriete said he will serve as Chairman of the Board of Directors and Fabio Villegas, Avianca's CEO, will serve as new CEO.

¶3. (SBU) Kriete stated a major consideration in completing this deal was the ability to avoid infringing upon anti-trust laws in the countries where they operate. He said originally TACA considered merging with Panama's COPA, but anti-trust concerns blocked this deal from advancing. Kriete noted that Avianca is an ideal business partner since they have less than one percent overlap in existing routes. He said the alliance has the potential to significantly increase air connections to Europe and North America by leveraging Avianca's long-range aircrafts. Kriete added that they are already exploring adding new routes, including San Salvador to Madrid, Lima to New York, and Lima to Los Angeles.

¶4. (U) Once the merger is approved in each country, TACA/Avianca will form the second largest carrier in Latin America based on annual revenues, behind Lan Chile. Combined, TACA and Avianca will have nearly \$3 billion dollars in aggregate annual revenues, serve more than 100 destinations worldwide, operate a fleet of 129 aircraft, and employ approximately 12,000 people. Kriete noted that TACA/Avianca will provide service to the most cities in Latin America and believes they can surpass Lan Chile in annual revenue in the near future.

¶5. (SBU) American Airlines' (AA) representative in El Salvador, Eduardo Del Pozo, told Econoff on October 9 that, based on the preliminary details, he doesn't believe the merger will affect AA's El Salvador operations since the biggest change for TACA will likely be increased service to Europe. Del Pozo added that AA is growing despite the economic downturn and will be adding additional flights to Dallas and Miami in 2010.

¶6. (SBU) COMMENT: Kriete had reportedly been shopping TACA for the past several years. TACA's merger with Avianca should allow Kriete to gracefully exit the company, without selling the airline at a rock-bottom price during the current economic crisis. Post does not

expect TACA's route mix to change much in the short run, but TACA/Avianca is unlikely to maintain four major regional hubs - San Salvador, San Jose, Bogota, and Lima - over the long run.

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